



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Wilson Elementary School District No. 7

As of June 23, 2004



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 7, 2004

Governing Board
Wilson Elementary School District No. 7
3025 East Fillmore Street
Phoenix, AZ 85008-6120

Members of the Board:

In our February 5, 2004, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2002. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of June 23, 2004. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2003, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We acknowledge the District's diligence in implementing the recommendations in our February 2004 report and correcting deficiencies cited in the District's June 30, 2003, audit reports and USFR Compliance Questionnaire. As a result, the District has complied with the USFR. However, we must emphasize that a number of deficiencies still exist. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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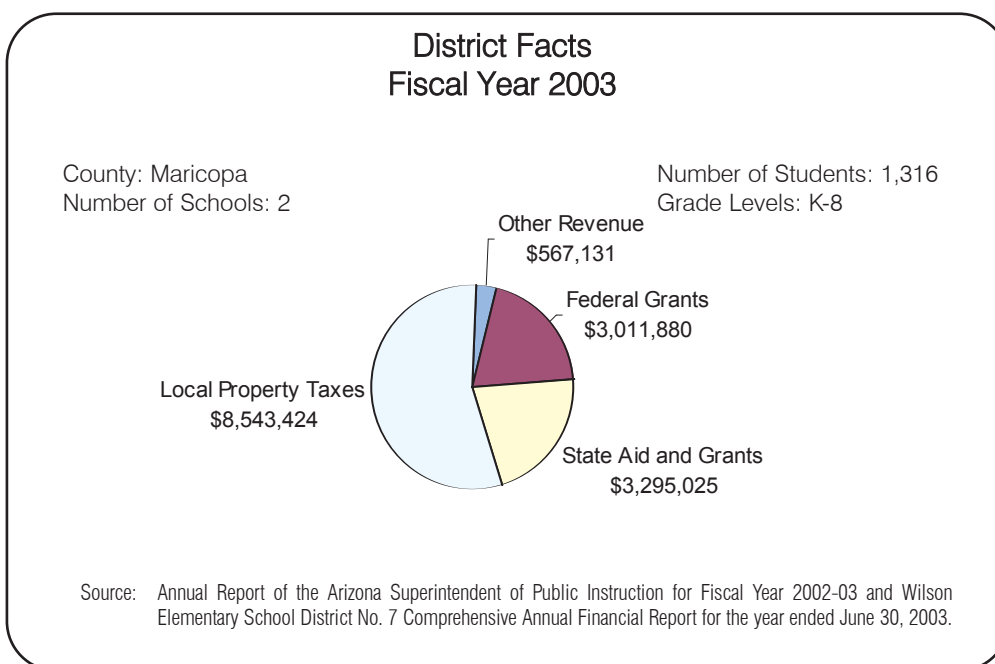
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INTRODUCTION

Wilson Elementary School District No. 7 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$15 million received in fiscal year 2002-03 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to continue to comply with the USFR. Our recommendations are described on the following pages.



The District should maintain accurate capital assets and stewardship lists

The District should improve accountability over its capital assets.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure that they are properly accounted for. However, the District did not maintain complete and accurate capital assets and stewardship lists. For example, some assets were not in the location indicated on the lists and not all items acquired under capital lease agreements were included on the lists. In addition, the District did not retain supporting documentation for some capital asset items.

Recommendations

The following procedures can help the District ensure that its stewardship and capital assets lists are accurate and complete:

- Update and maintain a stewardship list of capital asset items costing \$1,000 or more, but less than \$5,000 (or the District's capitalization threshold, approved by the Governing Board, if less than \$5,000).
- Update and maintain a capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more.
- Include all required information for each item on the capital assets and stewardship lists.
- Retain supporting documentation for all items recorded on the lists. If the District cannot locate documentation to support the actual costs of assets, it may use estimated historical costs obtained from vendor catalogs, price lists, appraisals, bond issue documents, or governing board meeting minutes.
- Update the lists at least annually for capital asset additions, disposals, and transfers. Also, include items acquired under the terms of capital lease agreements.

USFR §VI-E provides guidance for controlling and accounting for capital assets.

The District should improve controls over cash receipts

Because of the relatively high risk associated with transactions involving cash, school districts should have effective internal controls to safeguard cash. These controls should ensure that monies are safeguarded by depositing receipts daily, when significant, or at least weekly. However, for all seven cash receipts tested, the District did not deposit monies in a timely manner. For example, miscellaneous receipts of \$423 and \$671 were deposited 7 days after receipt, and student activity receipts of \$397 and \$325 were deposited 10 days after receipt.

The District did not effectively safeguard cash.

Recommendations

To help strengthen controls over monies received, the District should deposit monies daily, when significant, or at least weekly.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow certain School District Procurement Rules. Specifically, the District did not always determine, in writing, that the use of competitive sealed bids was either not practicable or not advantageous to the District before using competitive sealed proposals. Additionally, the District did not properly compile lists of prospective bidders.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules, the District should obtain written determinations from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District. If written determinations are not obtained, the District should follow the requirements for competitive sealed bids. In addition, the

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,899.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

District should follow the guidelines provided in *Arizona Administrative Code* R7-2-1023 for compiling prospective bidders' lists.

The District's controls over expenditures need improvement

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are properly recorded and that its expenditures are paid in a timely manner and supported. However, the District did not always code its expenditures according to the USFR Chart of Accounts and did not ensure that credit card bills were paid in full to avoid finance charges. In addition, the District did not verify that transportation invoices submitted by the student transportation services contractor were in accordance with the contract terms before payment was made.

Recommendations

To strengthen controls over its expenditures, the District should ensure that the following procedures are followed:

- Code expenditures in accordance with the USFR Chart of Accounts.
- Ensure that expenditures made from capital funds are appropriate.
- Pay all credit card bills in full and on time to avoid finance charges.
- Verify that vendor's invoices are accurate and comply with contract terms.

The District should maintain accurate student attendance records

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document attendance and absences. Accurate reporting is essential to help ensure that the District receives its fair share of state aid. However, the District did not ensure that the membership and absence days reported to ADE agreed with its membership and absence records.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should record and report attendance in accordance with ADE's *Instructions for Required Reports*. The District should assign an employee to verify that membership and absences reported to ADE agree with the District's attendance records and are calculated accurately.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.